

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-11 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 NEA-10
/132 W

-----115256 221155Z /10

P 212200Z FEB 78

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 1258

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 1720

E.O. 11652: GDS

TAGS: ENRG, VE

SUBJECT: PUBLIC CONCERN INCREASES OVER OIL EXPORT
DECLINE

REF: (A) CARACAS 845; (B) CARACAS 1020

1. SUMMARY. PUBLIC CONCERN INTENSIFIED OVER THE CONTINUING LOW LEVEL OF OIL PRODUCTION AND EXPORTS AS ACTUAL PRODUCTION FELL TO ITS LOWEST LEVEL IN 25 YEARS IN THE FIRST WEEK OF FEBRUARY. GOVERNMENT OFFICIALS, LED BY PRESIDENT PEREZ, SPENT MUCH OF LAST WEEK REASSURING THE COUNTRY THAT THE SITUATION WAS NOT SERIOUS, WHILE THE POLITICAL OPPOSITION USED THE OPPORTUNITY TO CRITICIZE GOV POLICIES AND THE CONTINUING ROLE OF THE MULTINATIONAL COMPANIES IN THE INDUSTRY. OFFICIAL EXPORT DATA IS NOT AVAILABLE, BUT WE ESTIMATE EXPORTS HAVE AVERAGED 1.6 TO 1.7 MILLION BARRELS PER DAY IN 1978, OR 15 OR 20 PERCENT BELOW LAST YEAR'S LEVEL. THIS LOSS IN ITSELF DOES NOT, AT LEAST IN THE SHORT TERM, PRESENT A SERIOUS THREAT TO THE GOV'S DEVELOPMENT PROGRAMS (LARGELY BECAUSE OF THE BUILDUP IN FINANCIAL RESOURCES SINCE 1974); THE GREATER DANGER IS IN THE EFFECT IT MAY HAVE ON PUBLIC CONFIDENCE, PARTICULARLY IN AN ELECTION YEAR. IT
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COULD ALSO REPRESENT A THREAT TO US-VENEZUELAN RELATIONS IF THE SITUATION WORSENS AND US COMPANIES ARE SET UP AS THE SCAPEGOATS. IF EXPORT LEVELS REMAIN DEPRESSED FOR A PRO-LONGER PERIOD, HOWEVER, THE BALANCE OF PAYMENTS AND FISCAL IMPLICATIONS FOR VENEZUELA COULD BE SERIOUS, GIVEN THAT THE GOV WAS ALREADY EXPERIENCING PROBLMES ON BOTH FRONTS.
END SUMMARY.

2. VENEZUELA'S OIL PRODUCTION AVERAGE 1.55 MILLION BARRELS PER DAY FOR THE WEEK ENDING FEBRUARY 15. WHILE THIS REPRESENTED A SLIGHT IMPROVEMENT OVER THE UNUSUALLY LOW PRODUCTION RATE OF THE PREVIOUS WEEK, IT STILL BROUGHT THE AVERAGE FOR THE YEAR-TO-DATE DOWN TO 1.69 MILLION, 28 PERCENT BELOW THE LEVEL OF THE SAME PERIOD LAST YEAR AND 25 PERCENT BELOW THE AVERAGE RATE OF 2.24 MILLION FOR THE FULL YEAR 1977. THE MORE IMPORTANT EXPORT FIGURES, HOWEVER, ARE NOT AVAILABLE. COMMENTS BY GOV OFFICIALS WOULD SUGGEST EXPORTS ARE IN THE RANGE OF 1.8 TO 1.95 MILLION BARRELS PER DAY, I.E. VERY CLOSE TO LAST YEAR'S LEVELS, BUT PRIVATE ESTIMATES, WHICH WE CONSIDER RELIABLE, PLACE EXPORTS AT NO MORE THAN 1.7 MILLION AND POSSIBLY SUBSTANTIALLY LESS. IT IS GENERALLY AGREED THAT THE MASSIVE INVENTORIES ACCUMULATED BY THE END OF 1977, PARTICULARLY OF RESIDUAL FUEL OIL, ARE BEING DRAWN DOWN, AND THESE DRAW DOWNS MAY, AS GOV OFFICIALS CLAIMS, BE EQUAL TO DOMESTIC CONSUMPTION OF 250,000 BARRELS PER DAY OF OIL PRODUCTS, WHILE THIS POLICY OF REDUCING STOCKS IS REASONABLE IN VIEW OF THE CURRENT MARKET OUTLOOK, PUBLIC CONCERN INCREASES WITH EACH WEEKLY ANNOUNCEMENT OF THE RESULTING LOW PRODUCTION FIGURES.

3. GOV OFFICIALS CONTINUE TO HOLD THAT THE DECLINE IS ONLY TEMPORARY AND THAT EXPORTS HAVE FALLEN MUCH LESS THAN PRODUCTION (REF A). FOLLOWING A THREE-HOUR CABINET DISCONFIDENTIAL

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DISCUSSION OF THE PROBLEM FEBRUARY 14, FINANCE MINISTER SILVA LUONGO EXPRESSED CONFIDENCE THAT EXPORTS WOULD RECOVER AND SAID THERE WAS NO NEED AT PRESENT FOR ADJUSTMENTS IN THE GOV'S BUDGET. HE ESTIMATED, HOWEVER, THAT IF THE CURRENT LEVEL OF EXPORTS HELD THROUGHOUT THE YEAR, GOV REVENUE WOULD FALL 3 TO 4 BILLION BOLIVARES (\$700 TO \$935 MILLION) BELOW THAT ORIGINALLY ESTIMATED FOR 1978. ENERGY MINISTER HERNANDEZ ALSO CONTINUED TO VOICE CONFIDENCE, COMPARING THE PRESENT SITUATION TO THAT OF EARLY 1976 WHEN EXPORTS ALSO BEGAN LOW AND RECOVERED BY YEAR'S END.

4. ON FEBRUARY 15 PRESIDENT PEREZ ADDRESSED THE PROBLEM IN A SERIES OF COMMENTS TO THE PRESS. HE INSISTED THAT IN SPITE OF WORLD OVERSUPPLY, VENEZUELA WAS NOT HAVING DIFFICULTY EXPORTING THE VOLUMES NECESSARY TO SUPPORT THE COSTS OF THE FIVE-YEAR PLAN. EXPLAINING THAT THE INDUSTRY ENDED 1977 WITH UNUSUALLY LARGE INVENTORIES, HE SAID PRODUCTION HAS BEEN INTENTIONALLY REDUCED TO PERMIT THESE INVENTORIES TO BE WORKED DOWN, AND THAT CURRENT EXPORTS INCLUDE ABOUT 250,000 BARRELS PER DAY FROM THESE STOCKS. SALES, HE SAID, CURRENTLY ARE ABOUT 1.95 MILLION PER DAY. (TAKEN IN CONTEXT, THIS FIGURE APPEARED TO REFER TO

EXPORT SALES, ALTHOUGH IN FACT I MAY INCLUDE BOTH EXPORT AND DOMESTIC SALES). HE ALSO MADE THE POINT THAT PETROLEUM WHICH IS NOT EXPORTED NOW WILL BE XPORTED IN THE FUTURE AT AN EVEN HIGHER PRICE. THE PRESIDENT SUPPORTED SILVA LUONGO BY MAINTIANING THAT NO ADJUSTMENTS ARE PLANNED IN THE BUDGET BECAUSE OF LOWER PETROLEUM EXPORTS, BUT ADDED THAT HE WOULD CAREFULLY REVIEW THE BUDGET WITH AN EYE TO REDUCING INFLATED EXPENDITURES. PEREZ ALSO STRUCK OUT AT THE SPENDING HABITS OF THE VENEZUELANS, SAYING TOO MUCH MONEY WAS WASTER ON SUPERFLUOUS IMPORTS AND FOREIGN TRAVEL AND THAT THE GOV WOULD CONTINUE ITS EFFORTS TO CURB THESE EXCESSES.

5. OPPOSITION POLITICAL PARTIES AND OTHER SPECIAL INTEREST
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GROUPS HAVE ATTEMPTED TO PLAY ON THIS CONCERN TO PROMOTE THEIR SPECIAL INTERESTS. A SPOKESMAN FOR COPEI, THE MAJOR OPPOSITION PARTY, CLAIMED THE PROBLEM WAS A STRUCTURAL ONE, RATHER THAN CIRCUMSTANCIAL OR SEASONAL, AND ATTRIBUTED IT TO THE GOVERNMENT ERRATIC PETROLEUM POLITICES, PARTICULARY WITH RESPECT TO OPEC.

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FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 1259

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 1720

6. THE LEFTIST PARTIES WERE MORE SPECIFIC. A COMMUNIST PARTY LEADER POINTED OUT THE EXXON HAS SHARPLY REDUCED ITS PURCHASES OF VENEZUELAN OIL (REF B) WHILE INUNDATING

THE CARIBBEAN REFINERIES WITH MIDDLE EASTERN OIL. THIS, HE SAID, PROVED THAT VENEZUELA MUST FURTHER DIVERSIFY ITS MARKETS. HE ALSO REPEATED AN EARLIER CLAIM THAT EXXON WAS ATTEMPTING TO IMPOSE REFINING PATTERNS ON VENEZUELA IN THE COURSE OF THE UPGARDING OF THE AMUAY REFINERY, WHICH WOULD EVENTUALLY GIVE THE COMPANY CONTROL OVER THE ORINOICO HEAVE OIL BELT (SEE 77 CARACAS 12294 AND CARACAS 333). THE SOCIALIST MAS PARTY ALSO CITED THE INVOLVEMENT OF EXXON IN THE MARKETING OF VENEZUELAN OIL, AND STRESSED THE NEED TO HOLD UP PRICES RATHER THAN PRODUCTION. WHICH SHOULD BE LIMITED TO 1.6 TO 1.8 MILLION BARRELS PER DAY FOR CONSERVATIONIST REASONS. ANOTHER (SMALL, PERSONALIST RIGHT OF CENTER PARY) ECHOED THE CONSERVATIONIST ARGUMENT, WHILE MEP (SMALL, LEFT OF CENTER SOCIAL DEMOCRATIC PARTY) CALLED FOR REVISIONS IN THE OFFTAKE AND MARKETING CONTRACTS UNDER WHICH THE MAJOR MULTINATIONAL OIL COMPANIES SELL VENEZUELAN OIL ABROAD.

7. PRO VENEZUELA, A NATIONALIST LOBBY GROUP, REITERATED ITS TRADITIONAL CONSERVATIONIST POLICY AND ALSO ASKED THAT THE GOV NOT DIVERT THE INVESTMENT FUNDS ACCUMULATED BY PETROLOES DE VENEZUELA AND BY THE VENEZUELAN INVESTMENT CONFIDENTIAL

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FUND TO COVER ANY RESULTING BUDGET DEFICIT. (A PRESS REPORT OVER THE WEEKEND INDICATED THE GOVE WAS ABOUT TO SHIFT 3 TO 4 BILLION BOLIVARES FROM PETROLEOS TO THE TREASURY THROUGH A CHANGE IN THE TAX RATE.) FEDECAMARAS, REPRESENTING THE BUSINESS COMMUNITY, DESCRIBED THE CURRENT OVERSUPPLY PROBLEM AS LONG TERM AND CALLED ON THE GOV TO ADJUST ITS POLICIES APPROPRIATELY.

8. COMMENT. SINCE THE PETROLEUM INDUSTRY STILL PROVIDES ABOUT 60 PERCENT OF GOV REVENUES (A CONTINUED LOW LEVEL OF EXPORTS WILL HAVE MAJOR FINANCIAL AND BUDGETARY IMPLICATIONS OVER THE LONG TERM. AT ESTIMATED CURRENT RATES OF EXPORT, AND ASSUMING NO CHANGE IN THE RATE OF TAXATION, THE GOV LOSES ABOUT \$105 MILLION PER MONTH IN ANTICIPATED REVENUE ((BS. 450 MILLION). BALANCE OF PAYMENTS LOSSES ARE EVEN GREATER. ASSUMING A 1.6 MILLION BPD AVERAGE RATE OF EXPORTS, WE ESTIMATE REVENUE FROM THE SALE OF PETROLEUM ABROAD WILL BE DOWN \$140 MILLION A MONTH OR EACH MONTH THE DEPRESSED RATE IS MAINTAINED (RATHER THAN THE \$80 MILLION FIGURE GIVEN BY THE MINISTER OF FINANCE). GIVEN VENEZUELA'S GROWING FISCAL AND BALANCE OF PAYMENTS PROBLEMS (SEE CARACAS 437), THESE ARE SERIOUS LOSSES INDEED. EVEN BEFORE THE DECLINE IN OIL EXPORTS, ANALYSTS AT THE CENTRAL BANK AND FINANCE MINISTRY WERE BECOMING INCREASINGLY CONCERNED ABOUT THE DECLINE IN THE VALUE OF THE DOLLAR, AND THE NAGATIVE IMPACT OF THIS PHENOMENON ON THE VALUE OF VENEZUELA'S FOREIGN EXCHANGE RESERVES.

9. AS THE DEPARTMENT IS AWARE, 1978 IS AN ELECTION YEAR, AND THE GOV WILL NOT WISH TO REDUCE THE RATE OF GOVERNMENT SPENDING DURING THE NEXT TWELVE MONTHS. THE GOV HAS A NUMBER OF OPTIONS WHICH WOULD ENABLE IT TO MAINTAIN REVENUE AND THEREFORE SPENDING AT A HIGH LEVEL. THEY
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INCLUDE:

--AN UPWARD ADJUSTMENT IN THE RATE OF TAXATION ON EACH BARREL OF OIL EXPORTED.

-- A DECLARATION OF DEIVIDEND BY PETROLEOS DE VENEZUELA, THE ONLY STOCKHOLDER IN WHICH IS THE GOVERNMENT OF VENEZUELA.

-- BORROWING ABROAD. HOWEVER, WHILE VENEZEULA CONTINUES TO BE CONSIDERED A CREDITWORTHY BORROWER, THERE IS EVIDENCE THAT FUTURE LOANS ARE GOING TO BE MADE ON CONSIDERABLY LESS FAVORABLE TERMS THAN HAS BEEN THE CASE IN THE PAST.

-- MORE RAPID DISBURSEMENT BY THE VENEZUELAN INVESTEMENT FUND FOR MAJOR PROJECTS, THEREBY ENABLING THE GOVERNMENT TO DEVOTE A HIGHER PERCENTAGE OF INCOME TO CURRENT EXPENDITURES.

AN INCREASE IN TAXES ON INDIVIDUALS AND CORPORATIONS WHICH WOULD GO A LONG WAY TOWARD ALLEVIATING VENEZUELAN'S MOST PRESSING ECONOMIC PROBLEMS, IS PROBABLY NOT LIKELY DURING THIS ELECTION YEAR.

10. FOR THE UNITES STATES, THE DECLINE IN VENEZUELA'S PETROLEUM REVENUES MAY HAVE IMPORTANT IMPLICATIONS. THERE IS AN OPEC MEETING SCHEDULED FOR JUNE, AND VENEZUELAN MAY BE EXPECTED TO JOIN FORCES WITH OTHER OPEC MEMBERS EXPERIENCING SIMILAR DECLINES IN INCOME TO PUSH FOR AN INCREASE IN OIL PRICES, POSSIBLY COMBINED WITH PRODUCTION CONTROLS.

11. FOR VENZEZUELA THE IMMEDIATE PROBLEMS, HOWEVER, APPEAR TO BE OPERATIONAL AND PSYCHOLOGICAL. OPERATIONAL PROBLEMS PRINCIPALLY INVOLVE THE NEED TO MAINTAIN REFINERY OPERA-
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TIONS AT A LEVEL SUFFICIENT TO PRODUCE GASOLINE FOR THE LOCAL MARKET (REF B). WE UNDERSTAND EXXON HAS INCREASED FEBRUARY OFFTAKE OF FUEL OIL BY 75,000 BARRELS PER DAY ABOVE THE LEVELS OF JANUARY. SOME OTHER COMPANIES, WHILE ACCOUNTING FOR MUCH SMALLER OFFTAKE VOLUMES, ARE PLANNING TO INCREASE FUEL OIL PURCHASES AS A RESULT OF THE PRICE REDUCTIONS GRANTED SINCE NOVEMBER. PRICES WERE REDUCED AGAIN IN FEBRUARY BY 10 50 CENTS A BARREL (SEE PIW OF FEB. 6) AND THERE MAY BE ANOTHER REDUCTION IN MARCH.

12. THERE IS ALSO RENEWED INTEREST IN THE DIVERSIFICATION OF MARKETS. ALMOST ALL OF THE DECLINE IN EXPORTS WAS ACCOUNTED FOR BY THE US MARKET. INCREASED OIL SALES WERE DISCUSSED DURING LAST WEEK'S VISIT OF A JAPANESE TRADE DELEGATION AND DURING MINISTER HERNANDEZ' VISIT TO FRANCE. FINALLY, PRESS REPORTS FROM SPAIN INDICATE THERE IS RENEWED INTEREST IN THE QUADRILATERAL OIL SWAP ARRANGEMENT INVOLVING CUBA AND THE USSR.

13. CONCERN IS BEING EXPRESSED PRIVATELY THAT THE MOST SERIOUS RESULT OF THE PRESENT SITUATION COULD BE A LOSS OF CONFIDENCE IN THE POLICIES OF THE GOV AND THE ABILITIES OF PETROLEUMS. THIS, COMBINED WITH THE NORMAL UNCERTAINTIES ASSOCIATED WITH AN ELECTION YEAR, COULD RESULT IN A WHOLESALE FLIGHT OF CAPITAL FROM THE COUNTRY, ACCORDING TO SOME OBSERVERS. IN THIS REGARD, THE GOV'S ATTEMPTS AT REASSURANCE ARE LARGELY SEEN AS OVERDONE AND MAY BE DOING MORE HARM THAN GOOD.
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Message Attributes

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Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 20 Mar 2014
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